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TREASURY FOR CPLANTIER, SDONOVAN, AMARCUS

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SUBJECT: TURKISH TREASURY TAKES LEAD ON IRAQ DEBT ISSUE

REF: 2005 ANKARA 4214 AND PREVIOUS

Classified By: Economic Counselor Tom Goldberger for reasons 1.4(b) and (d).

11. (SBU) A Turkish official confirmed that Turkish Treasury has now taken the interagency lead on the stalled Iraq debt issue. With Turkish officials receiving Iraq's debt advisors next week, Turkish officials are reviewing bilateral claims on Iraq and may report a higher figure than the \$1.6 billion cited two years ago. Turkey still does not have a clear position on how to treat the Iraqi debt, however we believe Treasury is better placed to deal with the issue since they have experience participating as a creditor in Paris Club negotiations. End Summary.

Treasury Takes the Lead

12. (C) Serdar Guzey, Head of the Department in the Turkish Treasury responsible for bilateral debt issues, said March 21 that Treasury had recently taken the lead on the Iraq debt issue. Guzey said Minister of Economy Babacan -- to whom Treasury reports -- had directed earlier this year that an interagency committee be established to deal with the issue. The committee, chaired by Treasury Under Secretary Ibrahim Canakci, will meet March 23 or 24 to prepare for meetings planned next week between Turkish officials and Iraq's external debt advisors, Houlihan Lokey and Ernst and Young.

Treasury Has Experience with International Debt Treatments

13. (C) We had several times urged Canakci and Treasury to get involved in the issue, hoping that Treasury's greater experience in international fora in general and the Paris Club in particular would result in Turkey taking a position more in line with the international community's. As recently as July 2005 (reftel), Guzey's boss Memduh Akcay, DG for International Economic Relations, told us Treasury was not involved in GOT discussions of the issue. We could not identify pressure from any corner (other than us) for Treasury to get involved. Foreign Ministry and Central Bank officials on multiple occasions doubted Turkey would or should forgive Iraqi debt and generally were ill-informed on international debt treatment practice. Although Turkey is not a Paris Club member, it has occasionally been invited to participate in negotiations as a creditor. Guzey, for example, participated in last year's Paris Club negotiation with Kyrgyzstan.

No Policy Position Yet

¶4. (C) Guzey was not aware of any discussion of the issue at the ministerial level or any Turkish position on the issue having been taken on how Iraq's claims should be treated. For now, Turkish officials are identifying and reviewing Turkish institutions' claims on Iraqi entities. Guzey hinted that this process may identify more than the \$1.6 billion in principal reported by Turkey to the IMF in 2003. He asked about classification of certain categories of debt, such as Turkish parastatal claims (he gave the example of the state pipeline company BOTAS) on Iraqi Ministries.

Negligible Iraqi Engagement

¶5. (C) Aside from letters from Iraqi officials vouching for the outside advisors, Guzey was not aware of any engagement by the Iraqi authorities on the issue. ITG Prime Minister Jafari and then Finance Minister Allawi raised the issue in a visit to Turkey in May, 2005. However, our understanding is that the issue was raised with Prime Minister Erdogan and Finance Minister Unakitan (reftel). In Turkey, the Finance Ministry is not responsible for debt issues. Guzey, like MFA officials, expressed frustration at the absence of a governmental counterpart on the Iraqi side.

Budgetary Treatment of Debt Forgiveness

¶6. (C) Among other reasons Turkish officials had taken a dim view of Turkey providing terms to Iraq comparable to the Paris Club's was Turkey's negligible experience forgiving official bilateral debt. Turkey is not a major creditor and has extended little debt to countries that have later obtained debt cancellation from the Paris Club. Guzey confirmed, however, that Turkey has now forgiven debt under the Kyrgyzstan Paris Club treatment. He explained that Turkish law does not allow for any reduction from face value based on marking-to-market. Instead, the Treasury has to use 100 cents on the dollar of budgetary allocation. In the Kyrgyz case, since the credits were extended by the Turkish Export Import Bank, Guzey said there is a sort of provision for sovereign loan losses on Eximbank credits that Treasury was able to use to pay for the budgetary cost of debt reduction.

Request for Agreed Minute, Dialogue with Paris Club

¶7. (C) Guzey complained about the difficulty of getting complete information on the Paris Club arrangement with Iraq and wondered whether he could obtain a copy of the Agreed Minute. We request Treasury Debt Office and EB/OMA might consider requesting Paris Club disclosure of the Agreed Minute to Turkey on a confidential basis, in order to encourage Turkey to provide comparable treatment.

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